

HORIZONS COMMUNITY HIGH SCHOOL
Kent County, Michigan

Comprehensive Annual Financial Report

For the year ended June 30, 2005

HORIZONS COMMUNITY HIGH SCHOOL
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For the year ended June 30, 2005

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FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.

CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

August 19, 2005

The Board of Directors
Horizons Community High School

We have audited the accompanying financial statements of the governmental activities and the major fund of Horizons Community High School (the "School") as of and for the year ended June 30, 2005, which collectively comprise the Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's elected officials and management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Horizons Community High School at June 30, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005 on our consideration of Horizons Community High School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Horizons Community High School. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Alden, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

HORIZON'S COMMUNITY HIGH SCHOOL
Management's Discussion and Analysis
June 30, 2005

As management of Horizon's Community High School, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with Horizons' financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of Horizons:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *school-wide* financial statements that provide both short-term and long-term information about Horizons' overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of Horizons, reporting operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

School -wide Statements

The school-wide financial statements report information about Horizons as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of Horizons' assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two school-wide statements report Horizons' net assets, and how they have changed. Net assets - the difference between assets and liabilities - is one way to measure Horizons' financial health or position.

- Over time, increases or decreases in Horizons' net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess Horizons' overall health, one should consider additional non-financial factors such as changes in pupil membership and the condition of the school's building and equipment.

HORIZONS COMMUNITY HIGH SCHOOL
Management's Discussion and Analysis
June 30, 2005

In the school-wide financial statements, Horizons' activities are presented as follows:

- *Governmental activities:* Horizons' basic services are included here, such as regular and special education, instructional support and administration. State aid finances most of these activities.

Condensed School -Wide Financial Information

The Statement of Net Assets provides financial information for Horizons as a whole.

	<u>2005</u>	<u>2004</u>
Assets		
Current assets	\$ 305,236	\$ 320,385
Capital assets, net book value	<u>—</u>	<u>—</u>
Total Assets	<u>305,236</u>	<u>320,385</u>
Liabilities		
Current liabilities	161,878	131,464
Noncurrent liabilities	<u>48,315</u>	<u>85,938</u>
Total Liabilities	<u>210,193</u>	<u>217,402</u>
Net Assets		
Unrestricted	<u><u>\$ 95,043</u></u>	<u><u>\$ 102,983</u></u>

The results of the fiscal year's operations for Horizons as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

HORIZON'S COMMUNITY HIGH SCHOOL
Management's Discussion and Analysis
June 30, 2005

The Statement of Activities presents changes in net assets from operating results:

	<u>2005</u>	<u>2004</u>
Program Revenues		
Operating grants	\$ 208,109	\$ 129,659
General Revenues		
State school aid, unrestricted	<u>1,383,349</u>	<u>1,407,990</u>
Total Revenues	<u>1,591,458</u>	<u>1,537,649</u>
Expenses		
Instruction	1,009,895	957,745
Supporting services	589,503	578,349
Other	<u>—</u>	<u>4,286</u>
Total Expenses	<u>1,599,398</u>	<u>1,540,380</u>
Decrease in net assets	(7,940)	(2,731)
Net Assets - Beginning of Year	<u>102,983</u>	<u>105,714</u>
Net Assets - End of Year	<u><u>\$ 95,043</u></u>	<u><u>\$ 102,983</u></u>

Financial Analysis of the School as a Whole

Horizons' financial position is the product of many factors. Unrestricted state aid accounted for most of Horizons' revenue, contributing about 87 percent of every dollar raised. The other 13 percent came from state and federal aid for specific programs.

Horizons' expenses are predominantly related to instructing students (63 percent). Instructional support, administration, operation and maintenance and field trips accounted for 37 percent of total costs. The most significant contributors to higher costs were health insurance premium costs, wage and salary increases and typical operation costs.

Total expenses surpassed revenues, decreasing net assets by \$7,940. The decrease is due primarily to increased salary and benefit costs.

Fund Financial Statements

The fund financial statements provide more detailed information about Horizons' fund, focusing on its most significant or "major" fund (the General Fund) - not the school as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs.

HORIZONS COMMUNITY HIGH SCHOOL
Management's Discussion and Analysis
June 30, 2005

Horizons utilizes only one kind of fund:

- *Governmental fund:* All of Horizons' basic services are included in the governmental fund, which generally focuses on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance school programs. Because this information does not encompass the additional long-term focus of the school-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

Financial Analysis of the School's Funds

Horizons uses funds to record and analyze financial information. Horizons' funds are described as follows:

Major Fund

The General Fund is Horizons' primary operating fund. The General Fund had total revenues of \$1,591,458 and total expenditures of \$1,642,387. It ended the fiscal year with a fund balance of \$145,208, down from \$196,137 as of June 30, 2004. The decrease in fund balance is primarily attributed to the added cost of employee health insurance, retirement and the payment of the prior year's early retirement incentive.

General Fund Budgetary Highlights

Horizons did not revise the annual operating budget during the year.

- Although the School's final budget for the General Fund anticipated expenditures would exceed revenues by \$97,709, the actual results for the year reflected a deficit of \$50,929.
- Actual revenues were \$55,884 higher than expected due to state school aid changes and small changes in federal grants and intermediate school district funding during the year.
- Actual expenditures were \$9,104 above budget, due primarily to basic instructional costs. Other expenditure variations were minor.

Capital Asset and Debt Administration

Capital Assets

By the end of 2005, Horizons had invested a total of \$13,300 in capital assets. This consisted of furniture and equipment. Previously reported capital assets are not included in this figure as they consist of computer and other small equipment that fall under the \$5,000 capitalization threshold established by the School beginning July 1, 2003. Buildings and infrastructure are rented from Wyoming Public Schools. More detailed information about capital assets can be found in the Notes to Basic Financial Statements. The net book value of capital assets at June 30, 2005 is zero, as all furniture and equipment are fully depreciated.

HORIZONS COMMUNITY HIGH SCHOOL
Management's Discussion and Analysis
June 30, 2005

Long-Term Debt

Horizons long-term debt outstanding consists of employee accumulated sick leave, which will be paid as qualifying employees retire.

Factors Bearing on the School's Future

At the time these financial statements were prepared and audited, Horizons was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The School has experienced increases in health insurance premium costs over the past two years. These increases have averaged in excess of 17%. Projections indicate these trends will continue, which will be a financial burden to the School's General Fund. Likewise, the continued escalation of retirement costs will likely provide pressure on Horizon's operational budget.
- Longevity increases tied to wage and salary schedules continue to drive up employee costs.
- The current state of Michigan funding provides for \$6,875 per pupil, an increase of \$175 per pupil. This additional funding is nearly eclipsed by the added costs of health insurance, wages and operational costs. The School is continuing cost containment and increasing class sizes to maintain a healthy fund equity.
- The Horizon's High School has completed a location move during the summer of 2005. The new location is presently owned by the Wyoming Public Schools as was the previous location. The transition will allow for a better educational delivery for the students of Horizon's High School.

Contacting the School's Financial Management

This financial report is designed to provide Horizons's parents, citizens, customers, investors and creditors with a general overview of Horizons's finances and to demonstrate Horizons's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director's Office, Horizons Community High School, 1585-36th St. S.W., Wyoming, Michigan 49509, telephone (616) 530-7535.

BASIC FINANCIAL STATEMENTS

HORIZONS COMMUNITY HIGH SCHOOL
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash and equivalents (Note B)	\$ 8,390
Due from other governmental units (Note C)	296,346
Inventory (Note A)	<u>500</u>
Total Current Assets	<u>305,236</u>
Noncurrent Assets	
Capital assets (Note D)	13,300
Less accumulated depreciation	<u>(13,300)</u>
Total Noncurrent Assets	<u>-</u>
Total Assets	<u>305,236</u>
Liabilities	
Current Liabilities	
Accounts payable	36,303
Due to other governmental units	22,741
Salaries payable	100,984
Current portion of long term obligations	<u>1,850</u>
Total Current Liabilities	<u>161,878</u>
Noncurrent Liabilities (Notes A, E)	
Capital leases payable	-
Accumulated vacation/sick leave	<u>48,315</u>
Total Noncurrent Liabilities	<u>48,315</u>
Total Liabilities	<u>210,193</u>
Net Assets	
Unrestricted	<u><u>\$ 95,043</u></u>

See accompanying notes to basic financial statements.

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants	Revenue and Changes In Net Assets
Governmental Activities				
Instruction	\$ 1,009,895	\$ -	\$ 208,109	\$ 801,786
Supporting services	589,503	-	-	(589,503)
Total Governmental Activities	<u>\$ 1,599,398</u>	<u>\$ -</u>	<u>\$ 208,109</u>	(1,391,289)
	General Revenues			
	State school aid, unrestricted			(1,383,349)
	Change in Net Assets			7,940
	Net Assets - Beginning of Year			102,983
	Net Assets - End of Year			\$ 95,043

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HORIZONS COMMUNITY HIGH SCHOOL
Balance Sheet
Governmental Fund
June 30, 2005

	<u>General</u>
Assets	
Cash equivalents (Note B)	\$ 8,390
Due from other governmental units (Note C)	296,346
Inventory (Note A)	<u>500</u>
Total Assets	<u><u>\$ 305,236</u></u>
 Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 36,303
Due to other governmental units	22,741
Salaries payable	<u>100,984</u>
Total Liabilities	<u>160,028</u>
Fund Balances	
Unreserved:	
Undesignated, reported in:	
General fund	<u>145,208</u>
Total Liabilities and Fund Balance	<u><u>\$ 305,236</u></u>

See accompanying notes to basic financial statements.

HORIZONS COMMUNITY HIGH SCHOOL
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total governmental fund balance	\$ 145,208
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Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in
governmental funds. The cost of assets is \$13,300 and
accumulated depreciation is \$13,300.

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Long-term liabilities, including bonds payable, are not due and
payable in the current period and therefore are not reported
as liabilities in the funds. Long-term liabilities at year end
consist of:

Accumulated vacation/sick leave

(50,165)

Total net assets - governmental activities

\$ 95,043

See accompanying notes to basic financial statements.

HORIZONS COMMUNITY HIGH SCHOOL
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Fund
For the year ended June 30, 2005

	<u>General</u>
Revenues	
State sources	\$ 1,427,133
Federal sources	74,652
Interdistrict sources	<u>89,673</u>
Total Revenues	<u>1,591,458</u>
Expenditures	
Current:	
Instruction	1,010,049
Supporting services	<u>632,338</u>
Total Expenditures	<u>1,642,387</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(50,929)</u>
Net Change in Fund Balances	(50,929)
Fund Balances, Beginning of Year	<u>196,137</u>
Fund Balances, End of Year	<u><u>\$ 145,208</u></u>

See accompanying notes to basic financial statements.

HORIZONS COMMUNITY HIGH SCHOOL
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Fund
to the Statement of Activities
For the year ended June 30, 2005

Net change in fund balance - governmental fund	\$ (50,929)
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Amounts reported for governmental activities in the Statement of Activities
are different because:

Repayment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:

Repayment of capital leases	3,966
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In the Statement of Net Assets, accumulated sick leave is measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$4,483) was exceeded the amounts used/paid (\$43,506).

39,023

Total changes in net assets - governmental activities

<u><u>\$ (7,940)</u></u>

See accompanying notes to basic financial statements.

HORIZONS COMMUNITY HIGH SCHOOL
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
State sources	\$ 1,482,603	\$ 1,419,642	\$ 1,427,133	\$ 7,491
Federal sources	52,971	52,971	74,652	21,681
Interdistrict sources	-	62,961	89,673	26,712
Total Revenues	<u>1,535,574</u>	<u>1,535,574</u>	<u>1,591,458</u>	<u>55,884</u>
Expenditures				
Current:				
Instruction:				
Basic programs	914,336	914,336	904,251	10,085
Added needs	102,208	102,208	105,798	(3,590)
Supporting services:				
Pupil services	126,162	126,162	119,010	7,152
Instructional staff services	269,692	269,692	282,685	(12,993)
General administrative services	44,305	44,305	45,463	(1,158)
Operation and maintenance services	168,411	168,411	177,034	(8,623)
Pupil transportation services	8,169	8,169	7,022	1,147
Other supporting services	-	-	1,124	(1,124)
Total Expenditures	<u>1,633,283</u>	<u>1,633,283</u>	<u>1,642,387</u>	<u>(9,104)</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(97,709)</u>	<u>(97,709)</u>	<u>(50,929)</u>	<u>46,780</u>
Other Financing Sources (Uses)				
Other	(11,402)	(11,402)	-	11,402
Net Change in Fund Balances	<u>109,111</u>	<u>109,111</u>	<u>(50,929)</u>	<u>58,182</u>
Fund Balances, July 1	<u>196,137</u>	<u>196,137</u>	<u>196,137</u>	<u>-</u>
Fund Balances, June 30	<u>\$ 87,026</u>	<u>\$ 87,026</u>	<u>\$ 145,208</u>	<u>\$ 58,182</u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2005

Note A – Summary Of Significant Accounting Policies

Horizons Community High School received its charter under Public Act 416 of 1994 from Wyoming Public Schools on September 19, 1994. As part of the chartering process, Horizons Community High School was instructed to file restated Articles of Incorporation with the Michigan Department of Commerce. According to the contract with Wyoming Public Schools, Horizons Community High School is to act exclusively as a governmental agency and is not to undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Under this contract, Wyoming Public Schools provides certain services to Horizons Community High School including approval of Horizons Community High School operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. Wyoming Public Schools is paid a 3% administration fee by Horizons Community High School for such services.

The School is governed by a Board of Directors consisting of fifteen members approved by Wyoming Public Schools and administered by a Director who is appointed by the aforementioned Board. The School provides educational services for approximately 203 full-time students as specified by state statute and Board of Directors policy.

The financial statements of Horizons Community High School (the "School") have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the School's accounting policies are described below.

1. The Reporting Entity

The financial reporting entity consists of a primary government and its component units. The School is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the School for financial statement presentation purposes, and the School is not included in any other governmental reporting entity. Consequently, the School's financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. School-Wide and Fund Financial Statements

School-Wide Financial Statements - The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the School as a whole. The reported information includes all of the nonfiduciary activities of the School. The School does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the School. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The School does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The School's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2005

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for the governmental fund. The General Fund is the School's only major fund, and its only fund.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the school-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

School-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2005

Governmental Funds

Governmental funds are those funds through which most school functions typically are financed. The acquisition, use, and balances of a school's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund—The General Fund is the general operating fund of a school. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the school-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school be under budgetary control and that both budgeted and actual financial results do not incur a deficit. A school's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a school's budget may occur without a corresponding amendment to the budget. A school has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Directors. Expenditures may not legally exceed budget appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Horizons Community High School utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- The Board of Directors and the Director establish proposed operating budgets for the ensuing fiscal year.
- Preliminary operating budgets are submitted to the Board of Directors by the Director. These budgets include proposed expenditures and the means of financing them.
- After the budgets are finalized, the Board of Directors adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General Fund budget was amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General Fund were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2005

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

8. Capital Assets

Capital assets, which may include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the school-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Furniture and equipment	3-10 years
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9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Accumulated Sick Leave

Accumulated sick leave at June 30, 2005 has been computed and recorded in the basic financial statements of the School. Eligible School employees are entitled to payments based on their unused sick days. At June 30, 2005, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for accumulated sick leave amounted to \$50,165.

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2005

11. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Cash Equivalents and Deposits

Depositories actively used by the School during the year are detailed as follows:

1. Fifth Third Bank

Balances at June 30, 2005 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Governmental Fund	<u>\$ 8,390</u>
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HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2005

Cash equivalents consist of a bank public funds checking account.

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned to the School. Protection of School cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the School's cash equivalents and deposits was \$8,390 and the bank balance was \$24,527. The entire bank balance of \$24,527 was covered by federal depository insurance.

Note C – State School Aid

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan schools in the form of a per pupil "Foundation Allowance" paid on a "blended count" of School pupil membership in February, 2004 and September, 2004. The 2004-05 "Foundation Allowance" for Horizons Community High School was \$6,728 for 203 "Full Time Equivalent" students, generating \$1,427,129 in state aid payments to the School of which \$259,597 was paid to the School in July and August, 2005 and included in "Due From Other Governmental Units" of the General Fund.

Note D – Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balances July 1, 2004	Additions	Deductions	Balances June 30, 2005
Capital assets being depreciated:				
Furniture and equipment	\$ 13,300	\$ —	\$ —	\$ 13,300
Less accumulated depreciation for:				
Furniture and equipment	13,300	\$ —	\$ —	13,300
Net Capital Assets	\$ —			\$ —

Depreciation expense was charged to School activities as follows:

Governmental activities:	
Supporting services	\$ —

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2005

Note E – Long-term Debt

Changes in long-term debt for the year ended June 30, 2005 are summarized as follows:

	Debt Outstanding July 1, 2004	Debt Added	Debt Retired	Debt Outstanding June 30, 2005
Capital leases	\$ 3,966	\$ —	\$ 3,966	\$ —
Accumulated sick leave	89,188	4,483	43,506	50,165
	<u>\$ 93,154</u>	<u>\$ 4,483</u>	<u>\$ 43,506</u>	<u>\$ 50,165</u>

Note F – Retirement Plan

Substantially all School employees participate in the Michigan Public School Employees' Retirement System (MPERS), a multiple employer public retirement system. The School payroll for employees covered by MPERS for the year ended June 30, 2005 was \$871,121. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

Schools in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 12.99% for the fiscal year. The School's contributions to the plan for the fiscal years ended June 30, 2005, 2004 and 2003 were \$128,691, \$112,510 and \$105,354, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2003 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$44,769. The MPERS' net assets available for benefits on that date were \$38,726 leaving an unfunded pension benefit obligation of \$6,043. Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2004 Annual Report of the MPERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

HORIZONS COMMUNITY HIGH SCHOOL
Notes to Basic Financial Statements
June 30, 2005

The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,812 from September 30, 2002 to September 30, 2003. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 3 years.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the School's total contribution to the MPSERS as discussed above.

Note G – Operating Lease

The School leases its facilities under an operating lease on a month-to-month basis from Wyoming Public Schools. Rent expense was \$80,000 for the year ended June 30, 2005. Future annual rent expense is expected to approximate the amount paid in 2004-05.

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the School and not required to be accounted for in another fund.

HORIZONS COMMUNITY HIGH SCHOOL
General Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash equivalents	\$ 8,390	\$ 16,267
Due from other governmental units	296,346	303,618
Inventory	<u>500</u>	<u>500</u>
Total Assets	<u><u>\$ 305,236</u></u>	<u><u>\$ 320,385</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 36,303	\$ 1,186
Due to other governmental units	22,741	20,240
Payroll withholdings payable	-	1,070
Salaries payable	<u>100,984</u>	<u>101,752</u>
Total Liabilities	<u>160,028</u>	<u>124,248</u>
Fund Balances		
Unreserved:		
Undesignated	<u>145,208</u>	<u>196,137</u>
Total Liabilities and Fund Balance	<u><u>\$ 305,236</u></u>	<u><u>\$ 320,385</u></u>

HORIZONS COMMUNITY HIGH SCHOOL
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
State sources:		
State aid	\$ 1,427,133	\$ 1,444,354
Federal sources:		
Title I	37,081	33,500
Title IIA	10,883	73
Title V	1,124	
I.D.E.A. program	<u>25,564</u>	<u>16,960</u>
Total federal sources	74,652	50,533
Interdistrict sources:		
Special education - county	<u>89,673</u>	<u>42,762</u>
Total Revenues	<u><u>\$ 1,591,458</u></u>	<u><u>\$ 1,537,649</u></u>

HORIZONS COMMUNITY HIGH SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Current:		
Instruction:		
Basic programs:		
High School:		
Salaries:		
Teachers	\$ 569,407	\$ 575,275
Substitutes	11,994	11,865
Extra duty	-	361
Severance pay	10,207	5,816
Employee benefits:		
Employee insurance	115,197	94,443
Early retirement incentive	20,000	-
Tuition reimbursement	2,232	3,632
Retirement	82,049	72,864
Social Security	44,484	45,361
Workers' compensation insurance	2,075	1,514
Cash in lieu of benefits	93	5,449
Local travel	14,400	14,400
Teaching supplies	13,033	12,955
Textbooks	3,584	3,233
Miscellaneous supplies	2,611	2,159
New equipment and furniture	8,176	6,664
Miscellaneous	4,709	3,821
Total basic programs	904,251	859,812
Added needs:		
Special education:		
Teachers salaries	41,921	38,675
Employee benefits:		
Employee insurance	12,358	11,433
Retirement	6,175	5,024
Social Security	3,207	2,959
Workers' compensation insurance	150	99
Other professional services	3,684	5,203
	67,495	63,393
Compensatory education:		
Teachers salaries	26,430	27,713
Employee benefits:		
Employee insurance	5,500	-
Retirement	4,072	3,600
Social Security	2,048	2,120
Workers' compensation insurance	95	67
Cash in lieu of benefits	158	-
	38,303	33,500
Total added needs	105,798	96,893

(Continued)

HORIZONS COMMUNITY HIGH SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Supporting services:		
Pupil services:		
Social worker services:		
Social worker salaries	\$ 65,841	\$ 61,084
Employee benefits:		
Employee insurance	12,358	11,433
Tuition reimbursement	-	304
Retirement	9,699	7,935
Social Security	5,037	4,673
Workers' compensation	236	157
	<u>93,171</u>	<u>85,586</u>
Other pupil services:		
Other professional services	8,838	8,691
Other supplies	6,302	7,143
New equipment and furniture	10,699	11,717
	<u>25,839</u>	<u>27,551</u>
Total pupil services	<u>119,010</u>	<u>113,137</u>
Instructional staff services:		
Improvement of instruction:		
Committee salaries	13,507	5,110
Employee benefits:		
Tuition reimbursement	-	601
Retirement	2,009	664
Social Security	1,033	391
Workers' compensation	47	12
Local travel	-	450
Office supplies	15,219	5,939
	<u>31,815</u>	<u>13,167</u>
Educational media services:		
Periodicals	5,754	3,867
Supervision and direction of instruction:		
Salaries:		
Director	94,333	91,683
Clerical	45,746	45,688
Severance pay	35,000	-
Employee benefits:		
Employee insurance	32,463	32,966
Retirement	20,368	17,845
Social Security	10,423	10,361
Workers' compensation	431	325
Local travel	1,541	1,544
Office supplies	4,811	6,214
	<u>245,116</u>	<u>206,626</u>
Total instructional staff services	<u>282,685</u>	<u>223,660</u>

(Continued)

HORIZONS COMMUNITY HIGH SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
General administrative services:		
Board of education:		
Audit services	\$ 3,525	\$ 3,486
Executive administration:		
Administrative fees	41,938	42,846
Total general administrative services	<u>45,463</u>	<u>46,332</u>
Operation and maintenance services:		
Operation and maintenance:		
Custodial salaries	32,019	27,064
Employee benefits:		
Employee insurance	14,317	9,747
Retirement	4,645	3,509
Social Security	2,449	2,070
Workers' compensation insurance	1,272	1,215
Telephone	8,512	8,805
Water and sewer	783	780
Waste and trash disposal	1,456	1,165
Insurance and bonds	11,605	10,838
Building rental	80,000	80,000
Heating	9,322	7,039
Electricity	10,654	9,370
Total operation and maintenance services	<u>177,034</u>	<u>161,602</u>
Pupil transportation services:		
Pupil transportation:		
Vehicle rental	7,022	8,097
Central services:		
Other central services:		
Supplies	1,124	-
Total Expenditures	<u><u>\$ 1,642,387</u></u>	<u><u>\$ 1,509,533</u></u>

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

August 19, 2005

The Board of Directors
Horizons Community High School

We have audited the basic financial statements of Horizons Community High School as of and for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Horizons Community High School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Horizons Community High School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, the Michigan Department of Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

August 19, 2005

The Board of Directors
Horizons Community High School

The following comments pertain to our audit of the financial records of Horizons Community High School as of and for the year ended June 30, 2005. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Horizons Community High School:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Horizons Community High School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Horizons Community High School are described in Note A in the Notes to Basic Financial Statements.

Significant Audit Adjustments

During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$25,819 to classify Special Education Act 18 monies received from KISD during the year.

Proposed Audit Adjustments

There were no material proposed audit adjustments not recorded by Horizons Community High School.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Horizons Community High School to the Director, Business Manager and Supervisor of Business Services as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

Other Comments

The General Fund Balance of the District decreased by \$50,929 to \$145,208 at June 30, 2005. This balance represents approximately 9 percent of the District's 2005-06 expenditure budget (down from 12 percent at June 30, 2004). Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Horizons Community High School. This level of fund balance alleviates the School from having to borrow for short term operating purposes, gives the School more stable operating funds during the year and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Horizons Community High School has an adequate system of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with Horizons Community High School's Director and business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the School in maintaining and improving its systems.

* * * * *

This communication is intended solely for the information and use of the Horizons Community High School Board of Directors, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Horizons Community High School and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them

Hungerford, Aldrin, Nichols & Benton, P.C.

Certified Public Accountants